



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 24th of January, 2007

Essential Air Service at

AKUTAN, ALASKA

Under 49 U.S.C. 41731 *et seq.*

DOCKET OST-2000-7068

ORDER REQUESTING PROPOSALS

Summary

By this order, the Department is requesting proposals from carriers interested in providing essential air service (EAS) at Akutan, Alaska, for a new two-year period beginning May 1, 2007, with or without subsidy.

Background

By Order 2005-5-12, May 19, 2005, the Department re-selected Peninsula Airways, Inc. (PenAir), to provide subsidized essential air service at Akutan, Alaska, through April 30, 2007. Under that order, PenAir was selected to provide eleven nonstop round trips each week to Dutch Harbor, all with 9-seat Grumman Goose equipment, for \$350,381 annual subsidy.

Request for Proposals

Because the end of the current rate term is approaching, we are requesting proposals from carriers interested in providing service at Akutan, with or without subsidy, for the two-year period beginning May 1, 2007. Carriers should file their proposals within 30 days of the date of service of this order. At the end of that period, our staff will docket proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Shortly afterwards, we will provide a summary of the proposals to the community and State of Alaska and ask them to submit their final

comments. We will give full consideration to all proposals filed in a timely manner.¹ Proposals should provide sufficient capacity to accommodate historical traffic levels.

Essential air service for Akutan requires a minimum of two round trips per week with small aircraft (10 or fewer seats) to either Dutch Harbor or Cold Bay. Service to Dutch Harbor must be operated on a nonstop basis, while service to Cold Bay may have up to two intermediate stops. Because of the need to accommodate historical traffic and the directional imbalance of freight and mail, for the last several two-year contracts we have authorized subsidy for significantly more service than required by the EAS determination. Proposals should match capacity with demand in a reasonable manner. We note that the current contract is for eleven nonstop round trips per week to Dutch Harbor with a Grumman Goose. Because Akutan has no landing strip, seaplane service is required.

Interested carriers should prepare their proposals with every expectation that their initial proposals will also be their *final* and *only* proposals. We retain the discretion to negotiate proposals with carriers when we deem it desirable; in such cases, of course, we will give all applicants the same opportunity. We also retain the discretion to reject outright all unreasonable or unrealistic proposals and solicit a new round of proposals. However, we anticipate that negotiation or rejection will remain only occasional exceptions to the rule.

We are here providing interested carriers with some basic information to serve as guidance when they prepare their proposals, but we will not prescribe a precise format for their proposals. We expect proposals to adequately describe the service being proposed and the annual amount of subsidy being requested. The applicants can make their own judgments as to the level of detail they wish to present; however, they might want to include proposed schedules as well as supporting data for their subsidy requests, such as projected block hours, revenues and expenses. We strongly encourage clear, well-documented proposals that will facilitate their evaluation by the affected community and the Department.²

We encourage proposals that meet those requirements in an efficient manner. Carriers are also welcome to propose more than one service option, if they choose; they need not

¹ Carriers should not expect the Department to accept late filings. In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not proceed with the carrier-selection case. Instead, we simply rely on that carrier's subsidy-free service as proposed.

² In selecting a carrier to provide subsidized essential air service, 49 U.S.C. 41733(c) (1) directs us to consider four factors: (1) service reliability; (2) contractual and marketing arrangements with a larger carrier at the hub; (3) interline arrangements with a larger carrier at the hub; and (4) community views. In addition, The Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006, Public Law 109-115, provides that when selecting a carrier to provide EAS, the Department may consider the relative subsidy requirements, codifying a factor that we have considered since the inception of the program. Interested carriers should also be aware that our general provisions governing essential air service will be included in the selection order as part of our authorization of subsidy for the selected service. Appendix C of this order contains those general provisions.

limit themselves to those requirements if they envision other, potentially more attractive service possibilities – different hubs, or seasonal service – with subsidy requirements that remain competitive.

Service and Traffic History

Akutan's historical traffic is shown in Appendix B. PenAir has provided service to Akutan for a number of years. In the last carrier selection order, we increased the required service level from ten round trips per week to eleven, because of traffic increases. Traffic in the last two years is slightly down from the earlier period, but we do not propose to decrease the level of capacity required.

Akutan is unusual in that its level of traffic would normally support subsidy-free essential air service. However, PenAir's Grumman Goose that serves Akutan has very high operating expenses because of its advanced age. In addition, Akutan's extreme isolation increases the cost of serving it because it is very distant from any carrier's maintenance and pilot bases and headquarters.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces and nondiscrimination.³ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements, as well as copies of the certifications, should contact the Office of Aviation Analysis at (202) 366-5903. The Department is prohibited from paying subsidy to carriers that do not submit these documents.⁴

Community Comments

Civic officials and the State are welcome to submit comments on the proposals at any time. As noted earlier, we will provide a summary of the proposals to the civic parties and

State of Alaska and ask them to submit their final comments shortly after the end of the 30-day period for carrier proposals.

³ The regulations applicable to these areas are: (1) 49 CFR Part 20 -- New restrictions on lobbying; (2) 49 CFR Part 21 -- Nondiscrimination in federally-assisted programs of the Department of Transportation -- Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 -- Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 -- Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 -- Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

⁴ The certifications are also available on the web at <http://ostpxweb.dot.gov/aviation/index.html>.

This order is issued under authority delegated by the Assistant Secretary for Aviation and International Affairs in 49 CFR 1.56a(f).

Accordingly,

1. We request that carriers interested in providing essential air service at Akutan, Alaska, submit their proposals, with or without subsidy requests, no later than 30 days after the date of service of this order. The proposals should be sent to: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590, with the title "Proposal to Provide Essential Air Service at Akutan, Alaska, Docket OST-2000-7068";

2. This docket will remain open until further order of the Department; and

3. We will serve this order upon all parties on the Service List for this Docket.

By:

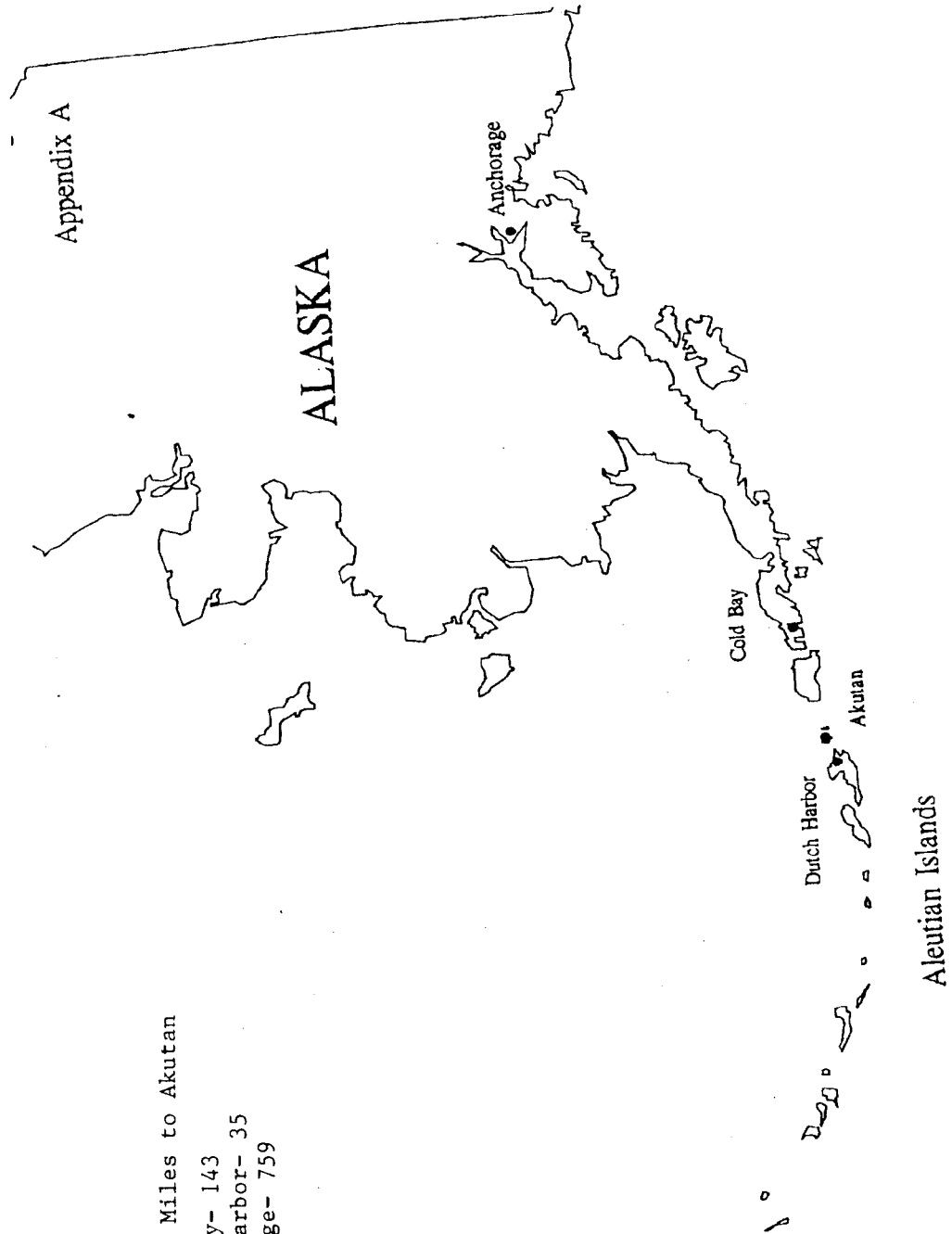
TODD M. HOMAN

Director

Office of Aviation Analysis

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>*



Nonstop Miles to Akutan
Cold Bay- 143
Dutch Harbor- 35
Anchorage- 759

Historical Traffic in Scheduled Service Between Akutan and Dutch Harbor, Alaska

Appendix B

Qtr. Ended	Outbound to Hub, KQA to DUT				Inbound from Hub, DUT to KQA				Origin and Destination			
	Pax.	Freight	Mail	Total PEQs	Pax.	Freight	Mail	Total PEQs	Pax.	Freight	Mail	Total PEQs
12/31/03	449	0	6	455	209	44	124	377	658	44	130	832
3/31/04	472	21	21	514	883	37	152	1,072	1,355	58	173	1,586
6/30/04	552	4	28	584	563	53	112	728	1,115	57	140	1,312
9/30/04	378	8	32	418	384	63	137	584	762	71	169	1,002
Total	1,851	33	87	1,971	2,039	197	525	2,761	3,890	230	612	4,732
12/31/04	682	13	39	734	376	75	226	677	1,058	88	265	1,411
3/31/05	486	87	30	603	767	66	147	980	1,253	153	177	1,583
6/30/05	586	50	30	666	568	56	126	750	1,154	106	156	1,416
9/30/05	320	10	29	359	419	89	162	670	739	99	191	1,029
Total	2,074	160	128	2,362	2,130	286	661	3,077	4,204	446	789	5,439
12/31/05	626	17	28	671	302	78	141	521	928	95	169	1,192
3/31/06	332	71	19	422	574	54	130	758	906	125	149	1,180
6/30/06	666	2	33	701	821	82	138	1,041	1,487	84	171	1,742
9/30/06	302	9	27	338	310	83	139	532	612	92	166	870
Total	1,926	99	107	2,132	2,007	297	548	2,852	3,933	396	655	4,984

Note: To put passengers and cargo on an equivalent basis, 200 pounds of mail or freight are treated as one passenger equivalent (PEQ).

General Terms and Conditions for Essential Air Service

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plans outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be ensured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the stipulated amounts or at the stipulated service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the Department and carrier do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

All claims for payment must be submitted within 60 days of the last day of service provided under this order.